

FRANKFORT INDEPENDENT BOARD OF EDUCATION

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2005

FRANKFORT INDEPENDENT BOARD OF EDUCATION

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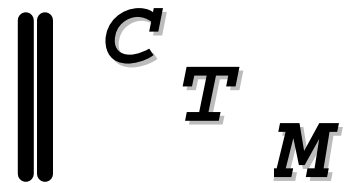
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INDEPENDENT AUDITOR'S REPORT

Members of the Frankfort Independent
Board of Education
Frankfort, Kentucky

We have audited the accompanying basic financial statements of the Frankfort Independent Board of Education as of June 30, 2005 and for the year then ended, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements present fairly, in all material respects, the financial position of the District as of June 30, 2005 and the results of its operations and the cash flows of its business type activities for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated October 31, 2005, on our consideration of Frankfort Independent Board of Education's internal control structure and a report dated October 31, 2005, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information shown on pages 28 through 31 is presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 32 through 33 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Charles T. Mitchell Co.

October 31, 2005

Frankfort Independent Board of Education – Frankfort, Kentucky
Management’s Discussion and Analysis (MD&A)
Year Ended June 30, 2005

This section of the Frankfort Independent Board of Education’s (District) annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the additional information found within the body of the audit.

Financial Highlights

- The Frankfort Independent Board of Education is committed to using fiscal resources to continuously improve student achievement.
- The District maintained all operations successfully. We continue to be conservative with spending while ensuring that student needs are properly considered.
- The District’s schools continued to be schools of choice for more parents and students than can be accommodated by Board policy, which is seen as a strength.
- Plans were developed by a Project Advisory Committee including Board members, administrators, teachers, students, parents, citizens, and alumni working with the architect to design and address policy issues relating to the addition to Frankfort High School to add grades 7 and 8 to this campus.
- The District Office was moved to a new location after over 40 years on Steele Street. The new office provides space for two of the District administrators previously located in a school, and is handicapped-accessible as well as having operational heat, air, and restroom facilities.
- Tuition from Franklin County Schools for students enrolled at Wilkinson Street School increased from \$50,000 to \$75,000 for the same number of students.
- Two properties were purchased adjacent to Frankfort High School to provide the land needed for the construction project for \$197,219.
- The gym floor at Second Street School was resurfaced for \$52,800.
- The structural work to repair the foundation at Frankfort High School was completed for \$40,400.
- The District received a grant for \$20,625 to put crumb rubber on Sower Football Field.
- Wilkinson Street School received a grant from WHAS for \$15,000 to purchase books.
- The Food Services program at Second Street School showed great improvements with new leadership at the school and district level.
- The true impact of security cameras purchased in the prior year was felt during 04-05 as there were no property insurance claims.
- Workers Compensation claims for 04-05 were minimal which will impact future premiums.
- The third year of the 21st Century Learning Communities grant was successfully completed.

Overview of the Financial Statements

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statement, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities the district operates like businesses, such as food services.

- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are divided into two categories:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finances most of these activities.
- Business-type activities – The District charges fees to help it cover the costs of certain services it provides. The District's community education programs and food service are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explains the relationship between them.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for the intended purpose and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-28 of this report.

Financial Analysis of the District as a Whole

The District's combined net assets were approximately \$2.6 million at June 30, 2005. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by bond covenants, enabling legislation, or other legal requirements – was \$505,028 at June 30, 2005.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students: consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table A-1
Frankfort Independent Board of Education's Net Assets

	Governmental Activities		Business-type Activities		School District Total		Total Percentage Change
	2004	2005	2004	2005	2004	2005	2004-2005
Current and other assets	\$ 1,528,309	\$ 750,269	\$ 21,646	\$ 29,543	\$ 1,549,955	\$ 779,812	-50%
Capital assets	4,993,709	4,779,251	3,003	2,055	4,996,712	4,781,306	-4%
Total assets	6,522,018	5,529,520	24,649	31,598	6,546,667	5,561,118	-15%
Long-term debt outstanding	2,868,266	2,439,243			2,868,266	2,439,243	-15%
Other Liabilities	536,718	500,944	522	3,626	537,240	504,570	-6%
Total Liabilities	3,404,984	2,940,187	522	3,626	3,405,506	2,943,813	-14%
Net assets							
Invested in capital assets, net of related debt	1,757,089	1,965,441	3,003	2,055	1,760,092	1,967,496	12%
Restricted	144,747	144,782			144,747	144,782	0%
Unrestricted	1,215,198	479,111	21,124	25,917	1,236,322	505,028	-59%
Total net assets	\$ 3,117,034	\$ 2,589,334	\$ 24,127	\$ 27,972	\$ 3,141,161	\$ 2,617,306	-17%

Note: Totals may not add due to rounding

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets: invested in capital assets-net of related debt restricted, and unrestricted. This means that the District has enough available resources to cover all outstanding obligations, including non-capital liabilities (such as compensated absences) as of June 30, 2005, with resources left over to use for next year's operations.

In the current year, the District implemented GASB No. 34 and recorded fixed assets and debt for the first time, all of which had a significant impact on the Statement of Net Assets.

The District's total revenues were \$8.2 million. (See Table A-2)

Table A-2
Frankfort Independent Board of Education's Net Assets

	Governmental Activities		Business-type Activities		School District Total		Total Percentage Change
	2004	2005	2004	2005	2004	2005	2004-2005
Revenues							
Program Revenues							
Charges for Services	\$ 106,063	\$ 127,336	\$ 180,711	\$ 187,959	\$ 286,774	\$ 315,295	10%
Federal and State Grants	1,224,144	978,239	165,034	190,734	1,389,178	1,168,973	-16%
General Revenues							
Taxes	1,985,877	1,953,750			1,985,877	1,953,750	-2%
State formula aid	3,908,962	3,737,584	25,548	23,938	3,934,510	3,761,522	-4%
Other	1,133,099	980,870	6,358	(12,801)	1,139,457	968,069	-15%
Total Revenues	8,358,145	7,777,779	377,651	389,830	8,735,796	8,167,609	-7%
Expenses							
Instruction related	5,133,012	4,989,868			5,133,012	4,989,868	-3%
Student support services	791,465	1,171,692			791,465	1,171,692	48%
Maintenance and operations	613,983	1,038,525			613,983	1,038,525	69%
Administration	770,021	692,182			770,021	692,182	-10%
Other	758,469	413,213	369,970	403,553	1,128,439	816,766	-28%
Total Expenses	8,066,950	8,305,480	369,970	403,553	8,436,920	8,709,033	3%
Excess/(deficiency) before special items	291,195	(527,701)	7,681	(13,723)	298,876	(541,424)	-281%
Special items							
Increase/(decrease) in net assets	<u>\$ 291,195</u>	<u>\$ (527,701)</u>	<u>\$ 7,681</u>	<u>\$ (13,723)</u>	<u>\$ 298,876</u>	<u>\$ (541,424)</u>	-281%

Note: Totals may not add due to rounding

The District's expenses are predominantly related to educating and caring for students (70 percent). The purely administrative activities of the District accounted for just 10 percent of total costs. Total expenses exceeded revenues, decreasing net assets \$541,424 over last year.

Budgetary Implications

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2 percent contingency. The District adopted a budget with \$550,904 (8.9%) in contingency.

No significant board actions were required concerning fiscal matters during fiscal year 2005. The Board, however, was prepared to deal with anticipated budget issues due to the uncertainty of state funding. Throughout the fiscal year we were advised of possible appropriation adjustments that would negatively affect the District's state allocation.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ 477,956	\$ 4,855	\$ 482,811
Inventory		5,895	5,895
Accounts Receivable	272,313	18,793	291,106
Notes Receivable			
Due from Other Funds			
Total Current Assets	<u>750,269</u>	<u>29,543</u>	<u>779,812</u>
<u>Noncurrent Assets</u>			
Capital Assets	8,779,549	85,449	8,864,998
Less: Accumulated Depreciation	<u>(4,000,298)</u>	<u>(83,394)</u>	<u>(4,083,692)</u>
Total Noncurrent Assets	<u>4,779,251</u>	<u>2,055</u>	<u>4,781,306</u>
 TOTAL ASSETS	 <u>\$ 5,529,520</u>	 <u>\$ 31,598</u>	 <u>\$ 5,561,118</u>
 LIABILITIES			
<u>Current Liabilities</u>			
Accounts Payable	\$ 36,264	\$ 3,626	\$ 39,890
Deferred Revenue	49,597		49,597
Due to Other Funds			
Current Portion of Bond Obligations	415,082		415,082
Current Portion of Accrued Sick Leave			
Total Current Liabilities	<u>500,943</u>	<u>3,626</u>	<u>504,569</u>
<u>Noncurrent Liabilities</u>			
Noncurrent Portion of Bond Obligations	2,398,728		2,398,728
Noncurrent Portion of Accrued Sick Leave	<u>40,515</u>		<u>40,515</u>
Total Noncurrent Liabilities	<u>2,439,243</u>		<u>2,439,243</u>
 TOTAL LIABILITIES	 <u>\$ 2,940,186</u>	 <u>\$ 3,626</u>	 <u>\$ 2,943,812</u>
 NET ASSETS			
Invested in Capital Assets	\$ 4,779,251	\$ 2,055	\$ 4,781,306
Restricted For:			
Capital Projects	143,679		143,679
Debt Service	(2,813,810)		(2,813,810)
Other Purposes	1,103		1,103
Unrestricted	<u>479,111</u>	<u>25,917</u>	<u>505,028</u>
 TOTAL NET ASSETS	 <u>\$ 2,589,334</u>	 <u>\$ 27,972</u>	 <u>\$ 2,617,306</u>

The notes to the basic financial statement are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 4,989,868	\$ 127,336	\$ 978,239		\$ (3,884,292)	\$	\$ (3,884,292)
Support Services:							
Student	164,000				(164,000)		(164,000)
Instruction Staff	438,094				(438,094)		(438,094)
District Administrative	183,605				(183,605)		(183,605)
School Administrative	508,577				(508,577)		(508,577)
Business	245,640				(245,640)		(245,640)
Plant Operation and Maintenance	800,906				(800,906)		(800,906)
Student Transportation	111,382				(111,382)		(111,382)
Central Office							
Community Service Activities	212,575				(212,575)		(212,575)
Facilities Acquisition and Construction	237,619				(237,619)		(237,619)
Other	6,024				(6,024)		(6,024)
Interest on Long-Term Debt	141,116				(141,116)		(141,116)
Depreciation	266,073				(266,073)		(266,073)
Total Governmental Activities	8,305,479	127,336	978,239		(7,199,903)		(7,199,903)
Business-Type Activities:							
Food Service	263,398	60,631	190,734			(12,033)	(12,033)
Multi-Year	140,155	127,328				(12,827)	(12,827)
Total Business-Type Activities	403,553	187,959	190,734			(24,860)	(24,860)
Total Primary Government	\$ 8,709,032	\$ 315,295	\$ 1,168,973	\$	(7,199,903)	(24,860)	(7,224,763)
General Revenues:							
Taxes:							
Property Taxes					1,053,398		1,053,398
Motor Vehicle Taxes					80,644		80,644
Utility Taxes					819,708		819,708
Revenue-In-Lieu-Of-Taxes					14,356		14,356
Investment Earnings					43,181	40	43,221
State and Formula Grants					3,737,584	23,938	3,761,522
Gains on Sales of Fixed Assets							
Transfers					12,841	(12,841)	
On Behalf Payments					877,392	17,568	894,960
Miscellaneous					33,100		33,100
Total General Revenues					6,672,204	28,705	6,700,909
Change in Net Assets					(527,699)	3,845	(523,854)
Net Assets - Beginning					3,117,034	24,127	3,141,161
Net Assets - Ending					\$ 2,589,335	\$ 27,972	\$ 2,617,307

The notes to the basic financial statement are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Special Revenue	Building Fund	Other Governmental Funds	Totals Governmental Funds
ASSETS AND RESOURCES					
Cash & cash equivalents	\$ 302,810	\$ (97,867)	\$ 273,013	\$	\$ 477,956
Accounts Receivable					
Accounts Receivable	124,585	147,728			272,313
Notes Receivable					
Dues from other funds					
TOTAL ASSETS AND RESOURCES	<u>\$ 427,395</u>	<u>\$ 49,861</u>	<u>\$ 273,013</u>	<u>\$</u>	<u>\$ 750,269</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 36,000	\$ 264	\$	\$	\$ 36,264
Deferred Revenue		49,597			49,597
Total Liabilities	<u>36,000</u>	<u>49,861</u>			<u>85,861</u>
Fund Balances					
Reserved for:					
Encumbrances					
SBDM					
NBCT	1,103				1,103
Technology Escrow					
KSFCC Escrow			143,679		143,679
Accrued Sick Leave					
Unreserved:					
General Fund	390,291				390,291
Special Revenue Funds					
Capital Projects Funds			129,334		129,334
Total Fund Balances	<u>391,394</u>		<u>273,013</u>		<u>664,407</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 427,394</u>	<u>\$ 49,861</u>	<u>\$ 273,013</u>	<u>\$</u>	<u>\$ 750,268</u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balance per Fund Financial Statements	\$ 664,407
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	4,779,251
Certain liabilities(such as bonds payable, the long-term portion of accrued sick leave) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(2,854,325)</u>
Net Assets for Governmental Activities	<u><u>\$ 2,589,334</u></u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General Fund	Special Revenue	FSPK Building Fund	Other Governmental Funds	Totals
Revenues:					
From local sources:					
Taxes:					
Property	\$ 929,821	\$	\$ 114,348	\$	\$ 1,044,169
Motor Vehicle	80,644				80,644
Utilities	819,708				819,708
Revenue-In-Lieu-of Taxes	14,356				14,356
Other	9,229				9,229
Tuition and fees	52,336	75,000			127,336
Earnings on Investments	43,181				43,181
Other local revenues	9,611	23,489			33,100
Intergovernmental - State	3,490,061	629,595	116,930	78,800	4,315,386
Intergovernmental - Indirect federal		960,239			960,239
Intergovernmental - Direct federal	18,000				18,000
Total Revenues	<u>5,466,947</u>	<u>1,688,323</u>	<u>231,278</u>	<u>78,800</u>	<u>7,465,348</u>
Expenditures:					
Instruction	3,588,269	1,450,164			5,038,433
Support Services:					
Student	164,000				164,000
Instructional staff	429,019	9,075			438,094
District administration	183,640				183,640
School administration	508,577				508,577
Business	245,640				245,640
Plant operations and maintenance	780,281	20,625			800,906
Student transportation	108,149	3,233			111,382
Central office					
Food Services					
Community Service		212,575			212,575
Facilities acquisition & construction	197,219			40,400	237,619
Debt Service					
Principal	4,388		95,103	32,376	131,867
Interest	46,339		86,086		132,425
Other				6,024	6,024
Total Expenditures	<u>6,255,521</u>	<u>1,695,672</u>	<u>181,189</u>	<u>78,800</u>	<u>8,211,182</u>
Excess (deficit) of revenues over expenditures	<u>(788,574)</u>	<u>(7,349)</u>	<u>50,089</u>		<u>(745,834)</u>
Other Financing Sources (Uses):					
Proceeds from sale of assets					
Bond principal proceeds					
Operating transfers in	16,216	10,724			26,940
Operating transfers out	(10,724)	(3,375)			(14,099)
Total Other Financing Sources(Uses)	<u>5,492</u>	<u>7,349</u>			<u>12,841</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(783,082)</u>		<u>50,089</u>		<u>(732,993)</u>
Fund balance July 1, 2004	<u>1,174,477</u>		<u>222,924</u>		<u>1,397,401</u>
Fund balance June 30, 2005	<u>\$ 391,395</u>	<u>\$</u>	<u>\$ 273,013</u>	<u>\$</u>	<u>\$ 664,408</u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in total fund balances per fund financial statements	\$ (732,993)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays this year.	(214,458)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	460,266
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(40,515)</u>
Change in net assets of governmental activities	<u>\$ (527,700)</u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
From local sources:				
Taxes:				
Property	\$ 955,316	\$ 955,316	\$ 929,821	\$ (25,495)
Motor Vehicle	80,000	80,000	80,644	644
Utilities	900,000	900,000	819,708	(80,292)
Revenue-In-Lieu-of-Taxes	14,000	14,000	14,356	356
Other			9,229	9,229
Tuition and fees	51,000	51,000	52,336	1,336
Earnings on Investments	47,000	47,000	43,181	(3,819)
Other local revenues	14,100	14,100	9,611	(4,489)
Intergovernmental - State	2,893,585	2,893,585	2,912,259	18,674
Intergovernmental - Indirect federal				
Intergovernmental - Direct federal	18,000	18,000	18,000	
Total Revenues	<u>4,973,001</u>	<u>4,973,001</u>	<u>4,889,145</u>	<u>(83,856)</u>
Expenditures:				
Instruction	3,056,664	3,056,664	3,147,954	(91,290)
Support Services:				
Student	154,020	154,020	154,583	(563)
Instructional staff	406,435	406,435	405,723	712
District administration	189,324	189,324	181,817	7,507
School administration	434,956	434,956	435,816	(860)
Business	342,471	342,471	225,298	117,173
Plant operations and maintenance	752,551	752,551	780,281	(27,730)
Student transportation	122,934	122,934	98,301	24,633
Central office				
Food Services				
Community Service				
Facilities acquisition & construction	107,000	107,000	197,219	(90,219)
Debt Service	50,715	50,715	50,727	(12)
Other	550,903	550,904		550,904
Total Expenditures	<u>6,167,973</u>	<u>6,167,974</u>	<u>5,677,719</u>	<u>490,255</u>
Excess (deficit) of revenues over expenditures	<u>(1,194,972)</u>	<u>(1,194,973)</u>	<u>(788,574)</u>	<u>406,399</u>
Other Financing Sources (Uses):				
Proceeds from sale of assets				
Operating transfers in	29,189	29,189	16,216	(12,973)
Operating transfers out	(7,626)	(7,625)	(10,724)	(3,099)
Total Other Financing Sources(Uses)	<u>21,563</u>	<u>21,564</u>	<u>5,492</u>	<u>(16,072)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,173,409)</u>	<u>(1,173,409)</u>	<u>(783,082)</u>	<u>390,327</u>
Fund balance July 1, 2004	<u>1,173,409</u>	<u>1,173,409</u>	<u>1,174,477</u>	
Fund balance June 30, 2005			<u>\$ 391,395</u>	

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Food Service Fund	Other Enterprise Funds	Total
Assets			
<u>Current Assets</u>			
Cash and Cash Equivalents	\$ (18,667)	\$ 23,522	\$ 4,855
Inventory	5,895		5,895
Accounts Receivable	15,526	3,267	18,793
Total Current Assets	<u>2,754</u>	<u>26,789</u>	<u>29,543</u>
<u>Noncurrent Assets</u>			
Capital Assets	85,449		85,449
Less: Accumulated Depreciation	<u>(83,394)</u>		<u>(83,394)</u>
Total Noncurrent Assets	<u>2,055</u>		<u>2,055</u>
Total Assets	<u><u>\$ 4,809</u></u>	<u><u>\$ 26,789</u></u>	<u><u>\$ 31,598</u></u>
Liabilities			
<u>Current Liabilities</u>			
Accounts Payable	\$	\$ 3,626	3,626
Due to Other Funds			
Total Current Liabilities		<u>3,626</u>	<u>3,626</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,055		2,055
Unrestricted	<u>2,754</u>	<u>23,163</u>	<u>25,917</u>
Total Net Assets	<u><u>\$ 4,809</u></u>	<u><u>\$ 23,163</u></u>	<u><u>\$ 27,972</u></u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

	Food Service Fund	Other Enterprise Funds	Total
Operating Revenues:			
Day Care	\$	\$ 127,327	\$ 127,327
Other	281		281
Lunchroom sales	<u>60,350</u>		<u>60,350</u>
Total Operating Revenues	<u>60,631</u>	<u>127,327</u>	<u>187,958</u>
Operating Expenses:			
Salaries and wages	121,963	130,766	252,729
Materials & Supplies	125,095	6,776	131,871
Depreciation Expense	949		949
Other operating expenses	<u>15,391</u>	<u>2,613</u>	<u>18,004</u>
Total Operating Expenses	<u>263,398</u>	<u>140,155</u>	<u>403,553</u>
Operating income (loss)	<u>(202,767)</u>	<u>(12,828)</u>	<u>(215,595)</u>
Non-Operating Revenues (Expenses)			
Federal grants	190,734		190,734
State On-behalf payments	17,568		17,568
State grants	3,538	20,400	23,938
Interest income	<u>40</u>		<u>40</u>
Non-Operating Revenues (Expenses)	<u>211,880</u>	<u>20,400</u>	<u>232,280</u>
Change in Net Assets	9,113	7,572	16,685
Other Uses of Funds			
Transfers Out	(7,308)	(5,533)	(12,841)
Net Assets July 1, 2004	<u>3,003</u>	<u>21,124</u>	<u>24,127</u>
Net Assets June 30, 2005	<u><u>\$ 4,808</u></u>	<u><u>\$ 23,163</u></u>	<u><u>\$ 27,971</u></u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2005

Cash Flows from Operating Activities:	
Net Income	\$ 16,685
Adjustments to reconcile net income to cash provided by operating activities:	
Changes in assets & liabilities:	
Depreciation	949
Transfers	(12,841)
Inventories	(1,845)
Accounts Receivable	(3,639)
Accounts Payable	<u>3,104</u>
Net cash provided by operating activities:	<u>2,413</u>
Cash flows from capital & related financial activities:	
Acquisition of capital assets	<u> </u>
Net cash used by capital & related financial activities	<u> </u>
Increase in cash & cash equivalents	2,413
Cash and cash equivalents, July 1, 2004	<u>2,442</u>
Cash and cash equivalents, June 30, 2005	<u><u>\$ 4,855</u></u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private Purposes Trust Funds	Agency Fund	Total
Assets			
Cash and Cash Equivalents	\$ 67,255	\$ 214,595	\$ 281,850
Total Assets	<u>\$ 67,255</u>	<u>\$ 214,595</u>	<u>\$ 281,850</u>
Net Assets			
Restricted For:			
Scholarships	\$ 67,255	\$	\$ 67,255
Student Groups		214,595	214,595
Total Net Assets	<u>\$ 67,255</u>	<u>\$ 214,595</u>	<u>\$ 281,850</u>

The notes to the basic financial statements are an integral part of this statement.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2005

	Private Purpose Trust Funds	Agency Fund	Total
Revenues:			
From local sources:			
Student Activities	\$	\$ 632,220	\$ 632,220
Interest Income	2,028		2,028
Contributions	<u>12,979</u>		<u>12,979</u>
Total Revenues	<u>15,007</u>	<u>632,220</u>	<u>647,227</u>
Expenditures:			
Other	3,542		3,542
Student Activities		<u>621,197</u>	<u>621,197</u>
Total Expenditures	<u>3,542</u>	<u>621,197</u>	<u>624,739</u>
Excess (deficit) of revenues over expenditures	11,465	11,023	22,488
Fund balance July 1, 2004	<u>55,790</u>	<u>203,571</u>	<u>259,361</u>
Fund balance June 30, 2005	<u>\$ 67,255</u>	<u>\$ 214,594</u>	<u>\$ 281,849</u>

The notes to the basic financial statements are an integral part of this statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Frankfort Independent Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Frankfort Independent School District (“District”). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Frankfort Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Frankfort Independent School District Finance Corporation

Frankfort Independent Board of Education resolved to authorize the establishment of the Frankfort Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRSS 273 and KRS 58.180) as an agency of the Board for financing the costs of school building facilities. The Board members of the Frankfort Independent Board of Education also comprise the corporation’s Board of Directors.

The financial statements of the Board also include those of the component unit, Wilkinson Street School. Wilkinson Street School is included in the reporting entity because of the significance of its operations and financial relationship with the Board.

The financial data of the component unit included in the financial reporting entity meets the criteria for blended presentation and is included in the combined financial statements. The activity associate with Wilkinson Street School is presented in a supplementary schedule to the basic financial statements. Wilkinson Street School does not issue separate financial statements.

A brief description of the blended component unit follows:

The Kentucky Cabinet for Human Resources (CHR), Department for Social Service (DSS), contracted with Wilkinson Street School under DSS contract number 93-94-3076, to provide social services for the school districts of Frankfort Independent, Franklin County, and Anderson County. These services consist of the operation of the Day Treatment Center for school age adolescents. The funds are provided by a Social Services Block Grant. Governance of the school is by a council advisory committee composed of representatives from each of the participating school districts and one representative from the Kentucky Department of Education. The Frankfort Independent Board of Education serves as fiscal agent for Wilkinson Street School and in such capacity receives contract payments from CHR and other funds and handles all disbursements made from these funds.

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive a calculated amount of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account “accumulated sick leave payable” in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Each budget is prepared at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$764,662. Of the total cash balance, \$200,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2005

NOTE C – CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents at June 30, 2005 consisted of the following:

	Bank Balance	Book Balance
State National Bank	\$ 949,182	\$550,439
Farmers Bank	\$ 181,444	\$195,090
First Federal	19,133	19,133
	<u>\$ 1,149,759</u>	<u>\$ 764,662</u>

Breakdown per financial statements:

Governmental funds	\$ 477,956
Proprietary funds	4,855
Private purpose trust funds	67,255
Agency funds	<u>214,596</u>
	<u>\$ 764,662</u>

NOTE D – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

<u>Governmental Activities</u>	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Land	\$ 1,020,989			\$ 1,020,989
Buildings and improvements	6,235,450			6,235,450
Technology equipment	770,128	51,615		821,743
Vehicles	573,110			573,110
General Equipment	128,257			128,257
Totals at historical cost	<u>8,727,934</u>	<u>51,615</u>		<u>8,779,549</u>
Less: accumulated depreciation				
Land	140,623	10,160		150,783
Buildings and improvements	2,453,414	163,811		2,617,225
Technology equipment	668,073	54,229		722,302
Vehicles	390,191	31,134		421,325
General Equipment	81,924	6,739		88,663
Total accumulated depreciation	<u>3,734,225</u>	<u>266,073</u>		<u>4,000,298</u>
Governmental Activities				
Capital Assets-Net	<u>\$ 4,993,709</u>	<u>\$ (214,458)</u>	<u>\$</u>	<u>\$ 4,779,251</u>
 <u>Business-Type Activities</u>				
Food service and equipment	\$ 77,727			\$ 77,727
Technology equipment	7,722			7,722
Totals at historical cost	<u>85,449</u>			<u>85,449</u>
Less: accumulated depreciation				
Food service and equipment	76,655	208		76,863
Technology equipment	5,791	740		6,531
Total accumulated depreciation	<u>82,446</u>	<u>948</u>		<u>83,394</u>
Business-Type Activities				
Capital Assets-Net	<u>\$ 3,003</u>	<u>\$ (948)</u>	<u>\$</u>	<u>\$ 2,055</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as current and non-current portions of bond obligations represent the District's future obligation to make bond payments relating to the bonds issued by the District.

The original amount of each issue, the issue date, and interest rates are summarized below:

Issue Date	Proceeds	Rates
Series of 2002	\$ 7,220,000	2.91%
Series of September 1, 1996	\$ 2,675,000	4.375%-5.0%
Series of July 15, 1999	\$ 1,300,000	4.7%-5.1%

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds as well as KISTA loans described below, may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2005 for debt service (principal and interest) are as follows:

Year	Frankfort Independent Board of Education		Kentucky School Facilities Construction Commission		Total
	Principal	Interest	Principal	Interest	
2006	\$ 121,497	\$ 79,895	\$ 253,503	\$ 34,427	\$ 489,322
2007	129,349	74,663	263,651	22,897	490,560
2008	83,360	68,087	92,640	10,794	254,881
2009	85,328	64,925	97,672	6,992	254,917
2010	90,824	61,514	46,176	2,869	201,383
2011	97,841	57,923	25,159	1,835	182,758
2012	100,316	54,150	25,684	1,098	181,248
2013	110,000	49,578	25,000	363	184,941
2014	115,000	44,121			159,121
2015	120,000	38,423			158,423
2016	125,000	32,419			157,419
2017	135,000	25,883			160,883
2018	140,000	18,870			158,870
2019	145,000	11,603			156,603
2020	155,000	3,953			158,953
	<u>\$ 1,753,515</u>	<u>\$ 686,007</u>	<u>\$ 829,485</u>	<u>\$ 81,275</u>	<u>\$ 3,350,282</u>

The balance of the long-term debt at June 30, 2005 are KISTA Small Issuer loans issued from 1998 to 2003. The final payment on these loans are scheduled to be in 2013. The original loan amounts are as follows:

Year	Loan Amount
1993	\$ 88,286
1998	\$ 205,000
2000	\$ 76,743
2003	\$ 116,897

NOTE F – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (“KTRS”) which was established under Kentucky Revised Statute 161.220. Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee’s Retirement System (“CERS”), a cost sharing, multiple-employer, public employers retirement system established under the provisions of Kentucky Revised Statute Section 61.645. Funding for the Plan is provided through payroll withholdings of 5.00% and a District contribution of 8.48% of the employee’s total compensation subject to contribution.

The Board’s total payroll for the year was \$5,701,741. The payroll for employees covered under KTRS was \$4,323,644 and for CERS was \$1,275,259.

The contribution requirement for CERS for the year ended June 30, 2005 was \$171,878 which consisted of \$108,142 from the District and \$63,737 from the employees. The District has no contribution requirement to KTRS. The contribution requirement for KTRS for the year ended June 30, 2005 was \$487,706 which consisted of \$61,607 from the federal government and \$426,099 from the employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2005 comprehensive annual financial reports.

NOTE G - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE H - LITIGATION

The District is not currently subject to legal action.

NOTE I - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following fund had operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$783,082
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NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE M - TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	\$ 10,724
Operating	Special Revenue	General	Indirect Costs	\$ 3,375
Escrow	Capital Outlay	Constructon	Escrow	\$ 40,400

SUPPLEMENTARY INFORMATION

FRANKFORT INDEPENDENT BOARD OF EDUCATION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	SEEK Capital Outlay Fund	Construction Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets & Resources:			
Cash & cash equivalents	\$	\$	\$
Accounts Receivable			
Accounts Receivable			
Notes Receivable			
Inventory			
Net Property Plant & Equipment			
Dues from other funds			
Amounts to be provided for retirement of General Long-Term Obligations			
Total Assets & Resources	<u>\$</u>	<u>\$</u>	<u>\$</u>
Liabilities & Fund Balances:			
Liabilities:			
Accounts payable	\$	\$	\$
Due to other funds			
Deferred Revenue			
Total Liabilities	<u> </u>	<u> </u>	<u> </u>
Fund Balances			
Reserved for:			
Encumbrances			
Accrued Sick Leave			
Unreserved:			
General Fund			
Special Revenue Funds			
Capital Projects Funds			
Debt Service Funds			
Permanent Funds			
Total Fund Balances	<u> </u>	<u> </u>	<u> </u>
Total Liabilities & Fund Balances	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRANKFORT INDEPENDENT BOARD OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	SEEK Capital Outlay Fund	Construction Fund	Total Nonmajor Governmental Fund
Revenues:			
From local sources:			
Taxes:			
Property	\$	\$	\$
Motor Vehicle			
Utilities			
Other			
Tuition and fees			
Earnings on Investments			
Student Activities			
Other local revenues			
Intergovernmental - State	78,800		78,800
Intergovernmental - Indirect federal			
Intergovernmental - Direct federal			
Total Revenues	<u>78,800</u>		<u>78,800</u>
Expenditures:			
Instruction			
Support Services:			
Student			
Instructional staff			
District administration			
School administration			
Business			
Plant operations and maintenance			
Student transportation			
Central office			
Food Services			
Community Services			
Non-Instructional			
Facilities acquisition & construction		40,400	40,400
Debt Service			
Principal	32,376		32,376
Interest			
Other	6,024		6,024
Total Expenditures	<u>38,400</u>	<u>40,400</u>	<u>78,800</u>
Excess (deficit) of revenues over expenditures	<u>40,400</u>	<u>(40,400)</u>	
Other Financing Sources (Uses):			
Proceeds from sale of assets			
Proceeds from sale of bonds			
Operating transfers in			
Operating transfers out	(40,400)	40,400	
Total Other Financing Sources(Uses)	<u>(40,400)</u>	<u>40,400</u>	
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses			
Fund balance July 1, 2004			
Fund balance June 30, 2005	<u>\$</u>	<u>\$</u>	<u>\$</u>

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
FRANKFORT HIGH SCHOOL ACTIVITY FUNDS
YEAR ENDED JUNE 30, 2005

Accounts	Cash Balances July 1, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Fund Balances June 30, 2005
Academic Competition	\$ 125	\$	\$ 18	\$ 107	\$	\$	\$ 107
Bookstore	477			477			477
Capitolian	2,559	2,861	2,384	3,036			3,036
Faculty Fund	500	944	510	934			934
General Fund	1,629			1,629			1,629
Graduation	1,618	3,330	3,391	1,557			1,557
Guidance	667	12,714	12,530	851			851
Miscellaneous	2,612	12,580	10,934	4,258			4,258
Project Graduation	4,869	8,357	5,913	7,313			7,313
SDDM	243		24	219			219
Senior Play	977	1,034	1,190	821			821
Textbooks	13,581	13,763	10,941	16,403			16,403
Special Trips	3,444	45,889	44,654	4,679			4,679
Costa Rica Trip	1,048	2,597	2,557	1,088			1,088
FHS PTO Misc.	2,217		2,217				
France Trip							
Student Misc.	332	2,798	2,162	968			968
C.S. Boyd Scholarship	8,658		542	8,116			8,116
General Athletics	66,760	278,474	282,471	62,763			62,763
Art Honor Society	133			133			133
Beta Club	56	4,358	4,178	236			236
Black History club	595			595			595
Co Ed Y	354	3,186	3,235	305			305
Drama Club	255	9,849	10,099	5			5
FBLA	16			16			16
FCA	1	757	749	9			9
FCCLA	249	3,952	4,131	70			70
Spanish Honor Society	31	220	142	109			109
Industrial Arts Club	35			35			35
Interact	580		160	420			420
SADD	11			11			11
Key Club	164			164			164
Literary Magazine	255		126	129			129
National Honor Society	82	35	44	73			73
Pep Club	307	292	592	7			7
Journalism	25			25			25
Student Council	3,617	2,576	3,363	2,830			2,830
Teens Who Care	55			55			55
Special Interest Club	258			258			258
Panther Dry Cleaners	137		137				
French Honor Society	44	100	122	22			22
Great Books	18			18			18
Cultures Club	18			18			18
Ping Pong Club	30			30			30
Archery Club		455	430	25			25
Class of 1996	252			252			252
Class of 1997	349			349			349
Class of 1998	231			231			231
Class of 1999	657			657			657
Class of 2000	124			124			124
Class of 2001	881			881			881
Class of 2002	656			656			656
Class of 2003	434			434			434
Class of 2004	1,187			1,187			1,187
Class of 2005	2,953	2,808	3,278	2,483			2,483
Class of 2006	412	4,877	4,003	1,286			1,286
Class of 2007		942	272	670			670
Class of 2008		1,155	951	204			204
Library	1,648	2,254	231	3,671			3,671
Panther Pantry	3,086	4,997	4,990	3,093			3,093
School Concessions	355	2,614	2,942	27			27
Athletic Concessions	3,014	26,435	26,123	3,326			3,326
Office Concessions	463			463			463
Book Fees-Freshman	11,817	33,381	27,115	18,083			18,083
Total	\$ 148,161	\$ 490,584	\$ 479,851	\$ 158,894	\$	\$	\$ 158,894

FRANKFORT INDEPENDENT BOARD OF EDUCATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ELEMENTARY SCHOOL
YEAR ENDED JUNE 30, 2005

		Cash Balances July 1, 2004	Receipts	Disbursements	Cash Balances June 30, 2005	Accounts Receivable June 30, 2005	Accounts Payable June 30, 2005	Fund Balances June 30, 2005
	<u>School</u>							
Second Street School		<u>\$ 35,906</u>	<u>\$ 141,637</u>	<u>\$ 141,344</u>	<u>\$ 36,199</u>	<u>\$</u>	<u>\$</u>	<u>\$ 36,199</u>
Total		<u>\$ 35,906</u>	<u>\$ 141,637</u>	<u>\$ 141,344</u>	<u>\$ 36,199</u>	<u>\$</u>	<u>\$</u>	<u>\$ 36,199</u>

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FRANKFORT INDEPENDENT BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

	<u>CFDA Number</u>	<u>Pass- Through Number</u>	<u>Disbursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Title I	84.010	0351-05-01	\$ 307,363
Title I	84.010	0651-04-01	34,676
Title I, Delinquent Child	84.013	0531-05-05	21,290
Title I, Part C	84.048	0462-05-32	8,957
Title I, Part C	84.048	0462-04-32	418
IDEA-Part B, Preschool	84.173	0587-05-02	24,378
IDEA, Part B, Basic	84.027	0581-05-02	202,662
		0581-04-02	6,655
Title II, D	84.318X	0736-05-02	9,167
Title II, D	84.318X	0736-04-02	
Title II, Teacher Quality	84.367A	0710-05-02	71,348
		0710-04-02	5,533
Title IV	84.186A	0590-05-02	7,678
Title IV	84.186A	0590-04-02	3,024
Title V	84.298	0533-05-02	3,531
Title V	84.298	0533-04-02	3,507
JOBS for America	17.259	0274-05-01	19,369
21st Century Community Learning	84.287	0744-05-03	121
		0744-04-03	130,944
Gear-Up	81.173	0587-05-02	15,194
Gear-Up	81.173	0587-04-02	9,423
Even Start Family Literacy	84.213C	0588-05-02	<u>75,000</u>
Total U.S. Department of Education			<u>960,238</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Kentucky Department of Education			
National School Lunch	10.555	0575-05-02	120,542
National School Breakfast	10.553	0576-05-05	38,011
Summer Meal	10.559	0574-05-23	19,578
Summer Meal	10.559	0569-05-24	2,042
Passed through the Kentucky Department of Agriculture			
Food Distribution	10.550		<u>15,530</u>
Total U.S. Department of Agriculture			<u>195,703</u>
TOTAL FEDERAL FINANCIAL AWARDS			<u>\$ 1,155,941</u>

FRANKFORT INDEPENDENT BOARD OF EDUCATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Frankfort Independent Board of Education and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes _____Xno
- Reportable condition(s) identified that are not considered to be material weaknesses? _____yes _____Xnone reported

Noncompliance material to financial statements noted? _____yes _____Xno

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes _____Xno
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____yes _____Xnone reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____yes _____Xno

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010

Title I

Dollar threshold used to distinguish Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____yes _____Xno

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

FRANKFORT INDEPENDENT BOARD OF EDUCATION
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2005

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Charles T. Mitchell Company, LLP

Certified Public Accountants

WILLIAM G. JOHNSON, JR., C.P.A.

JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

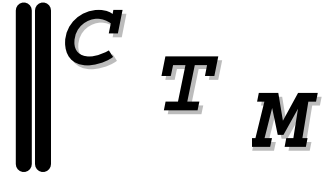
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INDEPENDENT AUDITOR'S REPORT

Members of the Frankfort Independent
Board of Education
Frankfort, Kentucky

We have audited the financial statements of Frankfort Independent Board of Education as of and for the year ended June 30, 2005 and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Frankfort Independent Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Frankfort Independent's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other certain matters that we reported to management of Frankfort Independent Board of Education, in a separate letter dated October 31, 2005.

This report is intended solely for the information and use of the members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Frankfort Independent School District, The Kentucky Department of Education management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

October 31, 2005

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Charles T. Mitchell Company, LLP

Certified Public Accountants

WILLIAM G. JOHNSON, JR., C.P.A.

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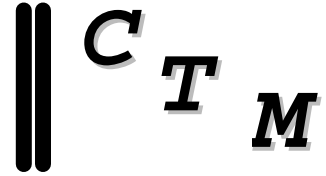
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INDEPENDENT AUDITOR'S REPORT

Members of the Frankfort Independent
Board of Education
Frankfort, Kentucky

Compliance

We have audited the compliance of Frankfort Independent Board of Education, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Frankfort Independent Board of Education's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Frankfort Independent Board of Education's management. Our responsibility is to express an opinion on Frankfort Independent Board of Education's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Frankfort Independent Board of Education's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Frankfort Independent Board of Education's compliance with those requirements.

In our opinion, Frankfort Independent Board of Education, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005

Internal Control Over Compliance

The management of Frankfort Independent Board of Education, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Frankfort Independent Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that

would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended solely for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Frankfort Independent Board of Education, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. and is not intended to be and should not be used by anyone other than these specified parties.

Charles T. Mitchell Co.

October 31, 2005

MANAGEMENT LETTER COMMENTS

Charles T. Mitchell Company, LLP

Certified Public Accountants

WILLIAM G. JOHNSON, JR., C.P.A.

JAMES CLOUSE, C.P.A.

BERNADETTE SMITH, C.P.A.

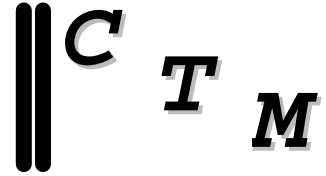
KIM FIELD, C.P.A.

GREG MIKLAVCIC, C.P.A.

Consultants

CHARLES T. MITCHELL, C.P.A.

DON C. GILES, CPA



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Members of the Frankfort Independent

Board of Education

309 Shelby Street, Suite 201

Frankfort, Kentucky 40601

In planning and performing our audit of the financial statements of Frankfort Independent Board of Education for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedure for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding this matter. A separate report dated October 31, 2005 contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated October 31, 2005 on the financial statements of the Frankfort Independent Board of Education.

Findings

1. During our review of athletic event ticket sales, we observed numerous instances that the Requisition and Report forms were not properly signed by the responsible party. We also observed significant over and short amounts on five forms that were left unexplained. Discussion with the Athletic Director and Principal disclosed that on occasion, gatekeepers are overwhelmed and stop dispensing tickets while still collecting receipts. This completely negates the purpose of the Requisition and Report forms and should not be allowed. We recommend strict adherence to Red Book policy in this area.

Follow-Up On Prior Year Recommendations

1. In the prior year, we commented on missing documentation in personnel files and recommended a checklist which should be completed prior to the commencement of employment of all personnel. In the current year, we were able to locate all required documentation and commend the District for their prompt attention to the matter.

We have enjoyed working with the management and staff of the Frankfort Independent Board of Education and look forward to a continuing, mutually productive relationship.

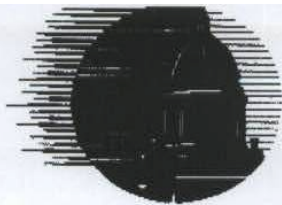
Respectfully submitted:

Charles T. Mitchell Co.

Charles T. Mitchell Co.

October 31, 2005

RESPONSE TO MANAGEMENT LETTER



Frankfort Independent Schools

"A Tradition of Excellence"

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Dr. Judith M. Lucarelli
Superintendent

Dianne Cobb
Assistant Superintendent

Dr. Marcy Pierce
*Associate Superintendent
of Special Student Services*

Sherrill Smith
*Associate Superintendent
of Support Services*

October 14, 2005

Kentucky Department of Education

To Whom It May Concern:

We have put into place controls to ensure that all persons collecting gate receipts at sporting events are now trained in required procedures for use of the Requisition and Report forms. This occurred as soon as it was brought to our attention during the 2004-2005 audit, so it should not be a problem in subsequent years. The Frankfort High School Principal, Athletic Director, and Bookkeeper are aware of the Red Book requirements and have committed to full compliance with these requirements.

Sincerely yours,

Dr. Judith M. Lucarelli
Superintendent of Schools